

Minutes
June 3, 2004
Lansing Center
Lansing, MI

NRC Policy Committee on Land Management

Land Review Process – Phase II Pigeon River Oil and Gas Operations

PRESENT:

Commissioner Keith Charters, Chair
Commissioner Mary Brown
Commissioner Frank Wheatlake
Commissioner Jerry Hall
Resource Management Deputy George Burgoyne, Jr., DNR
Upper Peninsula Field Coordinator Jim Ekdahl, DNR
Legislative Liaison Dennis Knapp, DNR
Forest, Mineral and Fire Management Chief Mindy Koch and Staff, DNR
Parks and Recreation Assistant Chief Lowen Schuett and Staff, DNR
Wildlife Acting Chief William Moritz and Staff, DNR
Land and Facilities Chief David Freed and Staff, DNR

OPENING REMARKS

Commissioner Charters opened the meeting at 11:30 a.m. He reported that he and **Resource Management Deputy George Burgoyne** made a presentation to the House Conservation and Outdoor Recreation Committee regarding the work of the Department and this NRC Policy Committee, specifically to explain the boundary reviews, current status, future steps, and overall goals. Diskettes containing the project boundaries were provided to Committee members. He further reported that they had made the same presentation to the Legislature's Sportsman's Caucus this morning, explaining that the Department is making every effort to keep constituencies and legislators involved in the process.

Commissioner Charters praised Department staff for completing Phase I of the boundary reviews and acknowledged the tremendous amount of time that staff committed to getting this accomplished. He asked DNR Resource Management Deputy George Burgoyne to give an update on the present status of the boundary reviews and the beginning of Phase II.

DNR Resource Management Deputy George Burgoyne reported that Department staff have been involved in reviewing, updating, and documenting all State forest, game, wildlife, park and recreation boundaries for over a year. After being available for public comment this winter, the revised project boundaries were presented to the Natural Resources Commission and approved by the Director at the May 2004 meeting. This completes the boundary review as planned in Phase I.

We can now initiate the review's Phase II. This will involve staff reviewing all Department-managed lands outside the newly established project boundaries, parcel-by-parcel, to determine how well they are contributing to fulfilling the Department's natural resource conservation and outdoor recreation mission. During this review, staff will identify those parcels which, because of their relatively low contribution to fulfilling the Department's mission, could be eligible for exchange or sale as a means of upgrading the State of Michigan's natural resource conservation and outdoor recreation lands. Our Phase II plan calls for Department staff to review the

lands outside the project boundaries in 10 counties every four months, present their recommendations to this Committee and the Natural Resources Commission, then for review and approval by the Director.

The counties included in the first set of reviews are: Chippewa, Dickinson, and Iron counties in the Upper Peninsula; Charlevoix, Emmet, and Leelanau counties in the Northern Lower Peninsula; Berrien, Branch, Cass and Hillsdale counties in Southern Michigan.

Each parcel will be reviewed, categorized roughly as follows:

Category 1) Lands that because of their natural resource conservation or other outdoor recreational values, along with their location, should continue to be managed by this Department.

Category 2) Lands that because of their natural resource conservation or other outdoor recreational values should continue to be protected and made available to the public, but could possibly be better managed by other conservation partners such as local parks systems, local governments, land conservancies, etc.

Category 3) Lands which have limited natural resource conservation values and limited outdoor recreational values and, therefore, could be exchanged or sold to acquire lands that offer better opportunities for contributing to natural resource conservation and/or outdoor recreation values, with an emphasis on consolidating holdings within the newly established project boundaries for the state parks, state recreation areas, state game areas, and state forests.

Burgoyne further stated that, based on lessons learned in the Phase I reviews, it will be most effective if all land managing divisions work closely together, focusing on the same counties at the same time to make these evaluations and recommendations Department-wide. The first 10 counties will serve as the pilot for the Phase II reviews. While working on the first 10 counties, staff can establish more refined criteria and specific review processes. As they develop recommendations on those lands, staff will learn from the process and can incorporate any improvements that need to be made for subsequent land reviews.

Commissioner Mary Brown stressed the importance of getting DNR partners, local officials and the public involved in the review process early on, and suggested public meetings. **Commissioner Charters** concurred that the Department needs to strategize on getting the public involved. Burgoyne acknowledged that the public needs to be involved through the process. He reported that conversations have already taken place with some land conservancies.

Bill Bobier, Michigan United Conservation Clubs (MUCC) Lobbyist, urged the Department to contact sources outside the agency that have strong, creative ideas and that opening up a forum for public input early on is extremely important. Land conservancies play a major role in identifying development rights and conservation easements.

Glen Chown, Grand Traverse Conservancy, commented that they are in the process of digitizing their information and could easily communicate with Department staff in the near future. **Tom Bailey, Little Traverse Conservancy**, agreed that their computers could communicate with the Department's land liaisons throughout this process to assist in coordinating and accomplishing this review. He also reported that their review of the recommendations from Phase I agreed with the Department in their area, except for one small area where their conservancy had acquired some conservation easements but the Department was unaware.

Commissioner Wheatlake asked how long this process would take before the Department could offer up lands for exchange or auction. Burgoyne pointed out that, although it will likely take approximately 2 to 3 years to complete the entire Phase II review of all 83 counties statewide, Phase III (which involves working land trades, putting lands up for auction in some areas of the State, or exchanging with other land managing partners) could occur in parallel with Phase II review. The first set of parcels identified for exchange or public sale could occur as soon as the first 10 counties have been completed and approved this fall by the Director.

The issue of severed mineral rights was raised, and discussion ensued regarding the inclusion of mineral review throughout this process. **Mindy Koch, DNR Forest, Mineral and Fire Management Chief**, explained that the mineral review process is extensive, but discussions are taking place to consider severed mineral issues. There is a staff person that will be involved throughout this process to review the mineral value of each parcel. **Commissioner Charters** closed this discussion by stating that this issue is something worth considering but should not delay the land review process as planned.

Commissioner Brown requested that the Natural Resource Commissioners be advised when a lead person is identified and designated in each county, as well as notifying our partners.

Commissioner Charters also requested that this Committee, and other partners, stay informed and involved in the development of criteria.

Commissioner Charters closed this portion of the meeting by requesting that Department staff continue to aim to complete their review of the first 10 counties in 4 months. He also recognized that since we will be learning along the way, the first 10 counties may take a bit longer as we work our way through the process. He asked that the Department plan to present a status report to this Committee in September, 2004, 3 months from now. He asked staff to aim for discussion of recommendations with this Committee in October, 2004, then to the full Commission for information in November. That discussion should include recommendations on each parcel that is through the review process, as well as identifying the next 10 counties to be reviewed and any process improvements.

PIGEON RIVER OIL AND GAS OPERATIONS

Commissioner Charters stated that the Land Committee requested an update on the status of Shell Oil Corporation's resignation as Unit Operator in the Pigeon River Country State Forest. **Lynne Boyd, DNR Forest, Mineral and Fire Management's, Mineral and Land Management Section Manager**, presented the update.

Shell sold their interest to Merit Energy and submitted their letter of resignation as Unit Operator on February 3, 2004. Neither the Department of Natural Resources nor Environmental Quality has the authority to stop the sale of assets. Failure to approve a new Unit Operator does not end production. It does, however, terminate the Unit Agreement, which would eliminate many of the restrictions specifically designed for the Pigeon River Country State Forest.

It is the Department of Environmental Quality's (DEQ) role to determine compliance at all Shell facilities, and transfer permits to drill and operate within the Pigeon River Country State Forest to Merit Energy. They have completed an inspection of all of Shell's assets, entered into a Consent Agreement with Merit Energy to correct any problems, acquired a drilling bond, and transferred all drilling permits to Merit.

The Department of Natural Resources' (DNR) role is to approve a new Unit Operator and transfer or assign all interests, production rights, and easements to Merit Energy. The DNR has compiled a list of all stakeholders' comments expressing what they would like included in an agreement with Merit. Department staff met with Merit Energy to discuss comments that should be incorporated into the Unit Agreement, to include additional bonding and environmental insurance, refined definition of "marginal wells," and requiring an up-to-date restoration plan.

Department (DNR) staff are in the process of drafting a written agreement to commit Merit Energy to all previous Unit Operator terms and obligations; inspecting all facilities, wells and easements within the Pigeon River Country State Forest for compliance with the terms of the lease; and reviewing all assignments and preparing the necessary paperwork to assign all leases as soon as Merit Energy is approved as the new Unit Operator and an agreement is signed.

The deadline to complete this process is 6 months, with a target date of August 17, 2004.

In closing, **Mindy Koch** mentioned that Merit Energy has offered to come in from Houston, Texas, if requested, to make a presentation to the Natural Resources Commission.

Commissioner Charters requested that staff keep this Committee and the Natural Resources Commission apprised on the status of this transfer. **Mindy Koch** responded that staff should be ready to present their findings and recommendations in July, with action and approval by the Commission and the Director in August. **Commissioner Charters** asked staff to place these items on the NRC Committee of the Whole's agenda for July and August.

CLOSING BUSINESS

Mindy Koch requested that Forest, Mineral and Fire Management be allowed to make a presentation on the Metallic Mineral Leasing Workgroup at the July Natural Resources Commission meeting. All the **Commissioners** approved.

Commissioner Charters once again thanked staff for their efforts in the boundary/land review process, and acknowledged the workload and sacrifices involved to accomplish this task.

Commissioner Charters adjourned the meeting at 1:00 p.m.

The Minutes were approved at the July 9, 2004 regular meeting of the Natural Resources Commission.